



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LESLIE COUNTY CLERK**

Calendar Year 1998

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY
LESLIE COUNTY
JAMES LEWIS, COUNTY CLERK
CALENDAR YEAR 1998
FEE AUDIT

On May 24, 2000, fieldwork was completed on the calendar year 1998 financial statement of the County Clerk. An unqualified opinion was issued on the statement of receipts, disbursements, and excess fees.

Noncompliance:

The following comment was included in the audit report:

- The County Clerk Should Have A Written Agreement To Protect Deposits.

Excess Fees:

There were no excess fees due the county for calendar year 1998.

Fee Account Financial Position:

Adequate funds were available to pay all 1998 obligations.

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Onzie Sizemore, Leslie County Judge/Executive
Honorable James Lewis, Leslie County Clerk
Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Leslie County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Onzie Sizemore, Leslie County Judge/Executive
Honorable James Lewis, Leslie County Clerk
Members of the Leslie County Fiscal Court

Based upon the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The County Clerk Should Have A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated May 24, 2000, on our consideration of the County Clerk's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 24, 2000

LESLIE COUNTY
JAMES LEWIS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts

State Fees For Services	\$	6,876
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Fiscal Court		11,002
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	281,678
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Usage Tax		284,437
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Tangible Personal Property Tax		507,883
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Licenses-

Fish and Game		10,123
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Marriage		5,417
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Deed Transfer Tax		4,552
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Delinquent Tax	116,452	1,210,542
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	7,133
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Real Estate Mortgages		9,677
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Chattel Mortgages and Financing Statements		33,592
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Powers of Attorney		257
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Candidate Filing Fees		3,350
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All Other Recordings		15,597
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Charges for Other Services-

Copywork	10,750	80,356
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Other:

Refunds	\$	1,085
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Checks Returned from Customers	986	2,071
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Interest Earned		1,449
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Gross Receipts	\$	1,312,296
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	234,032
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Usage Tax		276,136
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Tangible Personal Property Tax		215,263
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LESLIE COUNTY
 JAMES LEWIS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1998
 (Continued)

Disbursements (Continued)

Payments to State: (Continued)

Licenses-

Fish and Game	\$	9,980	
Delinquent Tax		15,096	
Legal Process Tax		<u>11,312</u>	\$ 761,819

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	66,636	
Delinquent Tax		16,926	
Deed Transfer Tax		<u>4,327</u>	87,889

Payments to Other Districts:

Tangible Personal Property Tax	\$	205,672	
Delinquent Tax		<u>51,537</u>	257,209

Payments to Sheriff 6,148

Payments to County Attorney 19,505

Operating Disbursements:

Personnel Services-			
Deputies Salaries	\$	96,000	
Contracted Services-			
Fax and Computer Line		1,055	
Supplies and Materials-			
Office Supplies		450	
Other Charges-			
Conventions and Travel		3,183	
Dues		770	
Postage		4,461	
Bank Service Charge		250	
Non-Sufficient Fund Check Expense		1,187	
Equipment		462	
Computer Programming		4,180	
Printing Tax Bills		1,749	
Candidate Filing Fees		2,010	
Refunds to Customers		3,605	
Miscellaneous		<u>529</u>	119,891

LESLIE COUNTY

JAMES LEWIS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1998
(Continued)

Disbursements (Continued)

Debt Service:

Lease Purchases \$ 7,668

Total Disbursements \$ 1,260,129

Net Receipts \$ 52,167

Less: Statutory Maximum 48,726

Excess Fees Due County for Calendar Year 1998 \$ 3,441

Less: Expense Allowance 3,441

Balance Due at Completion of Audit \$ 0

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1998
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the County Clerk securing the Clerk's interest in the collateral. The County Clerk did obtain a written security agreement with the bank on April 29, 1998.

Note 4. Grant

The County Clerk received a local record-microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$8,021. There were no expenditures during 1998 and the bank balance on December 31, 1998 was \$8,021.

Note 5. Lease

The office of County Clerk is committed to a lease agreement with Hyden Citizens Bank for computer equipment, hardware, and software. The agreement requires a monthly payment of \$639 for 36 months to be completed in May 1999. The total balance of the agreement is \$3,153 as of December 31, 1998.

Note 6. Condemnation Account

The County Clerk has a bank account that had a balance of \$2,389 on December 31, 1998. From the information made available to the auditors, it appears this is the result of unclaimed property money. According to KRS 393.090, property is considered abandoned after seven years and escheats to the Kentucky State Treasurer. We note that the Leslie Circuit Court ordered this condemnation account be established. Therefore, the County Clerk should work with the Circuit Court in determining the disposition of these funds.

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COMMENT AND RECOMMENDATION

LESLIE COUNTY
JAMES LEWIS, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 1998

The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of April 8, 1998, the County Clerk had bank deposits of \$182,153; FDIC insurance of \$100,000; and collateral pledged or provided of \$300,000. Even though the County Clerk obtained sufficient collateral of \$300,000, there was no written agreement between the County Clerk and the depository institution, signed by both parties, securing the County Clerk's interest in the collateral. We recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, the County Clerk did obtain a written security agreement with the bank on April 29, 1998.

County Clerk's Response:

The county clerk has no control over when the Board of Directors enters their approval in the minutes or when I am presented with the agreement for signature.

Auditor's Reply:

The County Clerk does select the depository bank.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Onzie Sizemore, Leslie County Judge/Executive
Honorable James Lewis, Leslie County Clerk
Members of the Leslie County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Leslie County Clerk as of December 31, 1998, and have issued our report thereon dated May 24, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Leslie County Clerk's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Onzie Sizemore, Leslie County Judge/Executive
Honorable James Lewis, Leslie County Clerk
Members of the Leslie County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 24, 2000

